

## Rochester Institute of Technology RIT Scholar Works

---

Theses

Thesis/Dissertation Collections

---

2-6-2015

# Fostering Economic Growth: The Establishment of the Free Economic Zone in Gjakova

Bleta Polloshka

Follow this and additional works at: <http://scholarworks.rit.edu/theses>

---

### Recommended Citation

Polloshka, Bleta, "Fostering Economic Growth: The Establishment of the Free Economic Zone in Gjakova" (2015). Thesis. Rochester Institute of Technology. Accessed from

This Senior Project is brought to you for free and open access by the Thesis/Dissertation Collections at RIT Scholar Works. It has been accepted for inclusion in Theses by an authorized administrator of RIT Scholar Works. For more information, please contact [ritscholarworks@rit.edu](mailto:ritscholarworks@rit.edu).

A·U·K

Submitted to AUK as a part of requirement for graduation

Fostering Economic Growth: The Establishment of the Free  
Economic Zone in Gjakova

Honors Society Project  
Presented to  
The Academic Faculty

By  
Bleta Polloshka

In Partial Fulfillment of the Requirements for Membership in  
the Honors Society of the American University in Kosovo

To my Family, Friends and my Professors

---

Keywords:

Economy

Growth

Kosovo

Gjakova

Zone

---

## Executive Summary

Kosova is a developing country which has a huge trade imbalance. In order to decrease the trade imbalance of Kosova, the Ministry of Trade and Industry has decided to establish free economic zones in the cities of Gjakova, Mitrovica and later Prizren. These economic zones were established under the Law Nr. 04/L-159 – on economic zones. This project will be specifically focused on the free economic zone of Gjakova.

Gjakova is a city in south-west of Kosovo with a very rich history in industrialization in the times of ex-Yugoslavia. Its previous industrialization and its geographical position have made it possible for Gjakova to be one of the free economic zones in Kosova. The purpose of this zone is to increase the number of foreign investments in Kosova, decrease the trade imbalance of Kosova by increasing exports, increase the number of jobs and income, concentrate businesses in one place only, and increase the competition in domestic and foreign markets.

According to research the previous potential in industrialization of Gjakova will not affect the developments in the present day free economic zone. The giant socially owned enterprises that used to exist in Gjakova will not be able to be revitalized because their facilities have suffered a lot of damages and their machines are stolen or completely damaged. An alternative to develop the free economic zone is to use the property of these enterprises for other business activities. This is where the role of the central government and municipal government are intertwined. The municipality of Gjakova does not own any of these enterprises, therefore if any business is interested in using these facilities they should buy them from the Kosovo Privatization Agency or request a long-term lease.

## Table of Contents

Executive Summary .....	3
Abbreviations .....	6
Problem statement.....	7
Chapter 1 Background on Free Economic Zones .....	8
1.1 Special Economic Zones .....	8
1.2 Free Economic Zones.....	9
1.3 UAE’s Free Economic Zones.....	10
1.4 China’s Free Economic Zones .....	11
1.5 Korea’s Free Economic Zones .....	12
1.6 European Free Economic Zones .....	13
Chapter 2 .....	14
Background on Gjakova, Kosova .....	14
2.1 Kosovar business environment.....	14
1.2 Gjakova’s past industrialization.....	15
2.3 Gjakova today .....	19
Chapter 3 .....	20
Methodology of Research .....	20
3.1 Goals.....	20
3.2 Methodology .....	21
3.3 Difficulties faced during research .....	22
3.4 What has gone well? .....	22
Chapter 4 Primary Research Results.....	24
4.1 Interview with the Mayor Mimoza Kusari-Lila .....	27
4.2 Interview with Agim Jaka, director at SOE “Metaliku” .....	28
4.3 Interview with Fehmi Nallbani, director at SOE “Ereniku” .....	29
4.4 Interview with Gezim Qurdina, manager at “Key One” .....	30
Chapter 5 .....	32

Analysis and Discussion .....	32
5.1 Assumptions .....	32
5.2 Effects on Labor and Income.....	33
5.3 Effects on the market for goods and services.....	33
5.4 Nonmonetary benefits .....	34
5.5 The role of central and municipal government .....	35
Chapter 6.....	36
Cross country comparison of FEZs in the region .....	36
6.1 Free economic zones in Macedonia .....	36
6.2 Free economic zones in Albania .....	37
6.3 Free economic zones in Serbia.....	37
6.4 Comparing all the countries .....	38
Chapter 7 .....	40
Recommendations and Conclusions .....	40
7.1 Promote the FEZ .....	40
7.2 Create a secure environment for doing business.....	41
7.3 Conclusion.....	42
References.....	43

## **Abbreviations**

SEZ – Special Economic Zone

FTZ – Free Trade Zone

FEZ – Free Economic Zone

EPZ – Export Processing Zone

FDI – Foreign Direct Investment

UAE – United Arab Emirates

MTI – Ministry of Trade and Industry

ILO – International Labor Organization

VAT – Value Added Tax

IFC – International Financial Cooperation

SOE – Socially Owned Enterprise

POE – Publicly Owned Enterprises

TAK – Tax Administration of Kosovo

KTA – Kosovo Trust Administration



## **Problem statement**

This Project will be addressing the problem of slow economic development of Gjakova. This city, as most of the other cities in Kosovo has stagnated since 1999. Gjakova was once an industrial city and today it does not even resemble the city it was. All of the factories that were once the heart of industrialization of Gjakova are now idle. The level of unemployment is one of the highest in Kosovo. Another problem arising from unemployment is the migration of the population to other cities in Kosova or even abroad. In this way all the problems are interconnected with the other or one problem causes another.

Recently, Gjakova has been declared as a free economic zone with the aim of attracting foreign and domestic investors to invest. This has been considered a way to get out of this stagnation of the economy. However, there has not been a long time since Gjakova has been declared a free economic zone; therefore the above mentioned problems still persist. The analysis of the developments in the Gjakova free economic zone will be done in various levels. Firstly, its effects in labor and income will be analyzed and then its effects on the market for goods and services as well as the nonmonetary benefits of the zone.

## Chapter 1

### Background on Free Economic Zones

#### 1.1 Special Economic Zones

Special economic zones (SEZ) or the so-called “modern zones” were first established in 1959 in Ireland (The World Bank Group, 2008). However, free zones date back to the 18<sup>th</sup> and 19<sup>th</sup> century (Table 1.1).

**Table 1.1 First SEZs in the world**

Place	Year of establishment
<b>Gibraltar</b>	1704
<b>Singapore</b>	1819
<b>Hong Kong</b>	1848
<b>Hamburg</b>	1888
<b>Copenhagen</b>	1891

Source: OECD

A Special Economic Zone (SEZ) is an area which has different laws and regulations than the country as a whole and tends to be oriented toward free markets (Special Economic Zone, 2009). Basically, the state laws do not apply for that particular zone. The SEZ it is not only one specific economic zone but it includes six other different zones such as: Free Trade Zones (FTZ), Export Processing Zones (EPZ), Single Factory EPZ, Specialized Zones, Enterprise Zones, and Free-ports (Sampat, 2008). Each one of these zones has a different aim or focuses more on one specific part of the economy. Despite this, what most of these economic zones try to do is to increase domestic and international competition, and attract foreign direct investments (FDIs) through the improved infrastructure. The governments use SEZs to expand exports and through protective barriers they try to create new jobs for their citizens (Sampat, 2008). In addition, they draft and approve new policies and laws concerning legal, labor and customs issues. However, this project will focus more on free economic zones (FEZs).

## 1.2 Free Economic Zones

Instituting free economic zones (FEZs) has been a major influential innovation in the world of economic development. Simply put, a free economic zone is a regional area in which foreign investors, sometimes in cooperation with domestic investors take advantage of a set of regulations which incentivize them and make them privileged over the investors in the ordinary economic zones. Under these circumstances they produce industrial products which are then exported in other countries generating economic growth in the FEZ they are operating in (Nam and Doina, 2004). A FEZ offers significant opportunities to improve free market activities and to “exploit comparative economic advantages.”(Chen, 1994) The establishment of free economic zones offers various benefits for the investors. Some of these benefits include: no export-import duties, no foreign exchange controls, tax exemptions, licensing, less strict labor legislation and better infrastructure (Kituyi, 2013). The high quality of administration and living environment has turned FEZs into centers for international finance. As such, they are “hosting the headquarters of many multinational corporations, including major law firms, accountancy firms, IT companies and strategic consultants.”(KFEZ, 2014) These zones are also transforming into multicultural centers for health services, education, tourism, leisure and shopping.

There are two conceptual approaches regarding the FEZs. One is the “territorial approach” and the other is the “regime approach”. On the one hand, the Territorial approach says that a free economic zone is a clearly defined territory in which certain rules and regulations apply. On the other hand, the Regime approach defines a free economic zone as a regime which offers various benefits to the investors located anywhere in the country as long as they fulfill certain criteria (United Nations, 1990). Having a territorial approach means having in your disposition a high-quality infrastructure and high-quality staff. In addition, the regime approach can support different sectors of the economy regardless of their location, giving foreign investors the possibility of selecting the location of their choice as well as guaranteeing the inclusion of the companies in the overall country’s economy. Despite the benefits that the regime approach has, the territorial approach is more practical and more spread out around the

world (United Nations, 1990). However, one country can have both at the same time that might even be considered an advantage for the overall economy.

Free Economic Zones have developed immensely since the time when the first zones appeared in 1970 (Table 1.2). Over the years they have brought a greater economic growth which has been manifested with increased exports and increased jobs.

**Table 1.2. The evolution of the free economic zones since 1970s**

1970s	Today
30 countries	More than 120 countries
80 zone projects	2000-5000 zone projects
No private zones	More than 1200 private zones
Total exports \$6 billion	Total exports exceed more than \$600 billion
Direct jobs generated = 1 million	Direct jobs 50 million, of which 30 millions are in China
	Indirect jobs = Direct jobs multiplied by 1.5 - 2

Source: The ILO Survey & the World Bank

FEZs are a popular way to seek development in the developing countries as well as in the newly industrialized countries. Some places where these zones are most popular are in Asia such as China, India, and Korea, Middle East countries such as UAE, Jordan, Bahrain, and Oman and recently in the Eastern European countries such as Hungary, Bulgaria, and Poland (The World Bank Group 2008; Kituyi 2013).

### **1.3 UAE's Free Economic Zones**

The first free zone that was opened in the Middle East was Aqaba port in Jordan in 1973. Even though it was a small zone, it was a very successful one because it enabled transit trade for the oil boom at the time (UAE, 2013). Moreover, the real boom of economic zones in the Middle East started in 1985 when the free zone of Jebel Ali was established in UAE. The zone was opened by the Jebel Ali Free Zone Authority which “offered warehousing and office units at the port, 100 per cent foreign ownership of companies, and exemption from import and export duties.”(The role of free zones, 2013) After almost 30 years of establishment Jebel Ali free zone totals for 20 percent of all FDI in the UAE and more than 50 percent of the overall

exports of Dubai (Embassy of UAE, London). This zone is the base for 160,000 jobs and has increased its revenues 34 percent for a year on average. Today UAE is home of a great number of free zones, most of them located in Dubai (UAE, 2013).

There are about 40 Free Zones in the UAE accommodating around 20,000 enterprises (UAE 2013, Embassy of UAE in London). The biggest six zones in this region are:

1. Jebel Ali Free Zone - 6,000 enterprises
2. Sharjah Airport International Free Zone - 3,900 enterprises
3. Dubai Airport Free Zone - 1,300 enterprises
4. Dubai Media City - 1,200 enterprises
5. Dubai Internet City - 1,000 enterprises
6. RAK Free Trade Zone - 750 enterprises

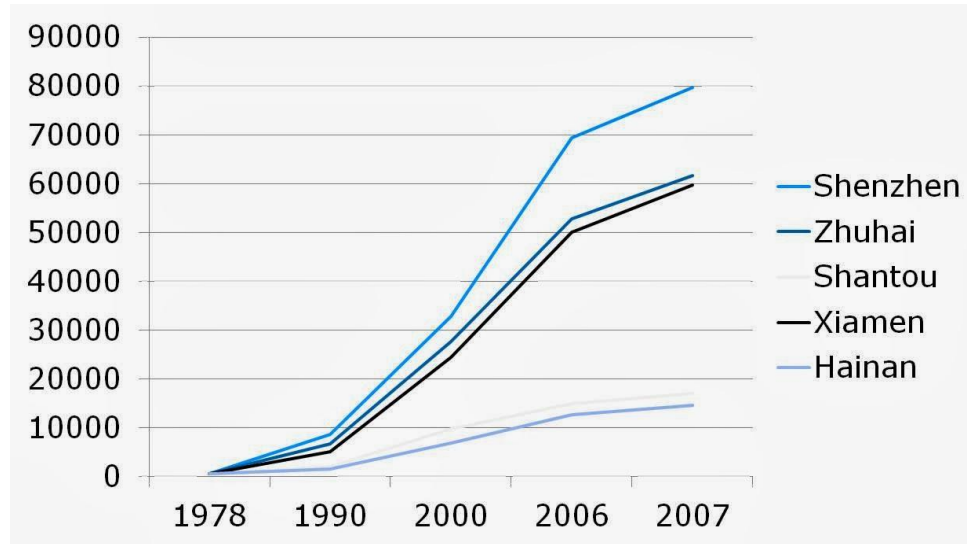
Since the free zones are developing each day more and more, Middle East will have increased competition and diversification in global markets. It will soon have fierce competition between countries to attract new FDIs. What has been created cannot be undone and these countries will have to face diminishing natural resources and the increased relevance of diversification (The role of free zones, 2013).

## **1.4 China's Free Economic Zones**

China is also home to many free zones; those being SEZs, FEZs, EPZs, FTZs etc. They were instituted with the aim of serving as “demonstration areas” which were supposed to attract Foreign Direct Investments (FDIs) and reform the existing policies (Sampat, 2008). The establishment of these zones has had a great impact on China's economy and has completely transformed many cities. One of the most important Chinese free zones is Shenzhen which is located in southern China. 23 years from its establishment, growth has “transformed Shenzhen from a small, sleepy fishing village into a thriving urban metropolis.” (Dixin, 2009) Shenzhen today has huge economy oriented mostly on exports. In 2003 the value of its exports was \$48 billion which accounts for 14 percent of the total national exports; the value of FDI was \$30 billion and the zone employed around 3 million workers (Sampat, 2008). Besides Shenzhen, there are a lot more free zones that were established in China since 1978 (Dixin, 2009). Their

development has had an important impact on the growth of China's GDP since then (Figure. 1.1).

**Figure 1.1 GDP growth in some Chinese cities since 1978 (data in millions \$)**



Source: The World Bank Group

According to the World Bank Group, in China there are also those that are known as zones within a zone, which are quite rare. Each one of these zones has different rules and regulations as well as different incentive systems. Some of these zones are: 15 free trade zones, 17 export processing zones, 14 open coastal cities, 15 border economic cooperative areas, 53 high technology development zones and 54 technological development zones (Sampat, 2008).

## 1.5 Korea's Free Economic Zones

Another country that has developed free economic zones in Asia is Korea. Korea is one of the most developed countries in Asia which has also created a suitable environment for the establishment of free economic zones. This environment is dependent on the position that Korea has in Asia which is the Northeastern part. "[T]heir world-class airports and port facilities and advanced TSR/TCR-based logistic infrastructure will ensure that the FEZs are the strongholds of Northeast Asian logistics." (KFEZ, 2014) They have created an operation that was applied in three phases and established 3 free economic zones in Korea (Table 1.3).

**Table 1.3 FEZs established in Korea**

Phases	Number of zones	Year	Places of zones
<b>1</b>	3	2003	Incheon, Busan-Jinhae, Gwangyang bay area
<b>2</b>	3	2008	Yellow Sea, Daegu-Gyeongbuk, Saemangeum-Gunsan
<b>3</b>	2	2013	ChungBuk, East coast

Source: Korean Free Economic Zones

## **1.6 European Free Economic Zones**

Europe is not a famous place for FEZs and there are not many known successful FEZs established in Europe, even though there are several of those in many countries. After the dissolution of the Soviet Union, many former union countries turned into free zones. The idea behind these free zones was to attract foreign investments and being part of the global economy through growth achieved by expansion (The World Bank Group, 2008). In some cases the Central and Eastern European countries began establishing free zones even before the break-up of the Soviet Union. One of the Eastern European regions that began with the free zones was former Yugoslavia. It was interesting how the newly established zones besides the new facilities build by foreign investors they used the existing infrastructure (Nam and Doina, 2004). The existing infrastructure has primarily helped them attract more investors. That is because having the infrastructure ready for operating means lower starting cost for foreign investors; lower starting costs means more investors.

## Chapter 2

### Background on Gjakova, Kosova

#### 2.1 Kosovar business environment

Kosovo is one of the Balkan countries that offers the most opportunities for foreign investment because of its rich natural resource base, updated rules and regulations and great system of taxation among other various reasons (KIESA). The Kosovo Tax Administration (TAK) applies three major taxes:

1. Value Added Tax (VAT)
2. Corporate Income Tax
3. Personal Income Tax

There are also other taxes applicable that depend on the nature and size of the business. In the Table 2.1 all taxes applicable in Kosovo are described.

**Table 2.1 Kosovo's Taxes**

<b>Tax or mandatory contribution</b>	<b>Payments (number)</b>	<b>Notes on Payments</b>	<b>Time (hours)</b>	<b>Statutory tax rate</b>	<b>Tax base</b>	<b>Total tax rate (% profit)</b>	<b>Notes on TTR</b>
<b>Corporate income tax</b>	5		29	10%	taxable profit	9.12	
<b>Social Security</b>	12		39	5%	gross salaries	5.64	
<b>Annual business license</b>	1			EUR 400	fixed fee (per schedule)	0.24	
<b>Property tax</b>	2			0.15%-1%	value of building	0.17	
<b>Vehicle tax</b>	1			EUR 90	fixed amount	0.05	
<b>Ecological tax</b>	0	paid jointly		EUR 30	fixed amount	0.02	
<b>Value added tax (VAT)</b>	12		87	16%	value added	0	Not included
<b>Employee paid - Social security contributions</b>	0	paid jointly		5%	gross salaries	0	withheld
<b>Totals:</b>	33		155			15.3	

Source: World Bank Group – Doing Business 2015



The war of 1999 has destroyed many of the economic sectors in Kosovo such as small and large public or private enterprises. One of the cities that suffered the consequences of the war and the times since 1990 most was Gjakova.

## 1.2 Gjakova's past industrialization

Gjakova is the fifth largest city in Kosova with a population of 95,363 and a rich history dating back to the 15<sup>th</sup> century. The entire city started building around the Hadumi Mosque which was built in the 14<sup>th</sup> century. The routes of the Ottoman trade from East to West passed through Gjakova making it a successful trade and handcraft center (IKS, 2011). It was an educational and religious cultural center which included the Old Bazaar, a school and a library. Then, in the 16<sup>th</sup> and 17<sup>th</sup> centuries, all its economy was developed around Old Bazaar. Almost all kinds of craftsmanship were developed there, including saddles, metal processing, gun production and decoration, filigree and decoration of golden sword handles. This city was a transit city which had built two bridges (Terezive and Tabakeve) to serve as a connection between Prizren and Shkoder, two of the biggest trade centers in the area. (IKS, 2011). This was a major route in Balkans which also made Gjakova a dynamic center for production and trade. Gjakova exported wool and silk throughout Southeast and Central Europe, never losing its dynamism in trade and production.

By the 1970s, Gjakova was among the most industrialized cities in Yugoslavia, having the highest employment rate per capita. From 1975 to 1990, Gjakova's companies employed roughly 16,000 workers and manufactured a large assortment of products (IKS, 2011). The company named *Jatex* (formerly known as *Napredak*) was a big producer of textiles that were sold in its own chain stores located all over the former Yugoslavia. *Gorenje*, the large Slovenian electronics company operated a supplementary plant in Gjakova named *Elektromotori*. This company produced electronic engines for household products such as washing machines and other appliances (CBDC, 2006). Furthermore, *Elektromotori* had a mutual cooperative agreement with an Italian company in the 1980s. Various metal products like wires and pipes were produced at *Metaliku* which was another big and important company. *Ereniku* established a beverages business with its huge vineyards located in the outskirts of Gjakova (CBDC, 2006). These and other big companies have crossed the borders of Yugoslavia and exported their goods in European, Canadian and American markets. Together these companies have had an export

value of \$100-200 million per year, thus being the heart of industrialization of Gjakova (IKS, 2011).

After the death of Tito, the social consequences of the Serbian nationalism hindered investment in the Kosovar industries. In 1989, Serbia revoked the status of Kosovo as an autonomous province of Yugoslavia. This decision was accompanied by the approval of the law on “work relations”, which implied that thousands of people lost their jobs, including here many from Gjakova (Ramet, 2002). The repressive forces of Milosevic deindustrialized the city of Gjakova and to make things worse, they completely burned down the Old Bazaar during the war of 1999. The Old Bazaar was never the same as before, nor were the industrial companies (Ramet, 2002). Today, Gjakova is the third city with the highest number of unemployed people in Kosovo and it has one of the less developed economies. The weak law enforcement has restrained foreign investors from investing.

Privatization was selected as a measure towards Kosovo’s economic development. In 2002 the Kosovo Trust Agency (KTA) was founded and given the authority to evaluate, administer and privatize Socially Owned Enterprises (SOEs), as well as to administer publicly owned enterprises (POEs). The relatively large assets of SOEs in Gjakova, including strategically located land and buildings, were expected to serve as intact potential, especially for Gjakova’s economic revitalization (CBDC, 2006). However, the process of privatization in Gjakova faced some obstacles. Many of the SOEs declared that they have already been “transformed” i.e. privatized in the 1990s under the “Markovic laws” (IKS, 2011). These laws indicated that social capital should be transformed into private capital by selling the shares of the company workers. In this way, these companies would be transformed into ones with shared private ownership between the management and its workers. Under this process some of the SOEs have managed to minimize the temporary masses of Milosevic measures which interfered in the SOEs, leaving the workers of these enterprises jobless. Despite this, immediately after the war of 1999 UNIMIK arrived and decided on the legislation in Kosovo which only included laws that were approved before March 23, 1989. This meant that whatever happened with these SOEs after 1989 was no longer valid (CBDC, 2006). Therefore, many of the SOEs had undefined statuses and were left in the hands of the Kosovo Privatization Agency (KPA).

A problem of unresolved statuses has been rather unique to Gjakova. Generally, out of 39 former SOEs in Gjakova, only 13 have been privatized so far, two have been recognized as

already transformed (privatized), one will be re-tendered in the 49<sup>th</sup> privatization stage and 23 have statuses still under dispute (Table 2.1).

**Table 2.2 The status of social enterprises in Gjakova**

<b>Nr</b>	<b>Company Name</b>	<b>Status</b>	<b>Nr</b>	<b>Company Name</b>	<b>Status</b>
1	Ereniku	Disputed	21	Mulliri	Privatized
2	Ereniku Industry	Disputed	22	Beci	Privatized
3	ErenikuVirxhnia	Disputed	23	Ereniku Poultry Farm	Privatized
4	Ag Coop Rogova	Disputed	24	Agricultural Station Gjakove	Privatized
5	Ag Coop Bistrzhini	Disputed	25	Coop Skivjan	Privatized
6	Ag Coop Demiani	Disputed	26	Ereniku- Primary Production	Privatized
7	Ag Coop Gergoci	Disputed	27	IMN	Privatized
8	Coop Ponoshec	Disputed	28	Agimi-Mishi	Privatized
9	Coop Rugove	Disputed	29	NewCo Deva Chrome Processing Plant LLC	Re-tendered in 49th wave
10	9 Nentori	Disputed	30	Auto house Kompresori	Privatized
11	Forest Economy	Disputed	31	EminDuraku	A waiting SCSC
12	Metaliku	Disputed	32	Jatex HC	Disputed
13	Unimetali	Disputed	33	NewCoEminDurakuEdico	A waiting SCSC
14	Veterenary Station Gjakove	Disputed	34	NHTT Pashtriku	Privatized
15	Enti I Projektimit "Eninig"	Disputed	35	Agimi	Privatized
16	Ereniku Trading	Disputed	36	Modeli HC	Privatized
17	KosovatransGjakova	Disputed	37	Auto-moto Start	Privatized
18	Ag coop Novosella	Disputed	38	Dukagjini	Status Recognized
19	Gjeodezia N.sh	Disputed	39	Elektromotori	Status Recognized
20	BarnatoretGjakove	Disputed			

Source: IKS – Kosovar Stability Initiative – Kosovo Agency for Privatization

Although small in number, the current workers get paid from the rents of the buildings and shops of these SOEs (Table 2.3). The former and current workers of these SOEs remain unaware as to whether they will be entitled to shares of their companies, a 20 percent pay out, a new job upon privatization or nothing at all. Until the legal status of these companies is defined, they also lack access to capital for investment and growth (IKS, 2011). Even though many of the enterprises can be privatized, this does not ensure that there will be a boost in the economy of Gjakova. The *Elektromotori* enterprise was privatized in 1990 and then had its privatization

recognized by the Kosovo Trust Agency in 2006. However, it is still inactive and like any other SOE the only income it gets is from renting its facilities. *Mulliri*, *Modeli* and *Beci* enterprises have also been privatized but none of them is active in production today (CBDC, 2006).

**Table 2.3 Activity of selected SOEs in Gjakova**

SOE	Year Established	Prior Production	Workers in 1990	Current Activity	Workers in 2010
Jatex	1947	Manufactured textiles; trade	1888	Rent shops	70
Metaliku		Manufactured metal products	1530	Inactive	8
Deva	1949	Mined metal ores; gas supply	159	In privatization process	48
Ereniku	1961	Manufactured food products	1356	Rents space and storage facilities	98
EminDuraku	1959/60	Manufactures textiles	2850	Inactive; court dispute	501

Source: IKS – Kosovar Stability Initiative

Based on evidence from the already privatized enterprises we can see that privatization does not guarantee economic growth. This is because most of these companies were an integral part of the big enterprises of the former Yugoslavia and were meant for specific markets (World Bank 2010). Moreover, the machines of these companies have been completely destroyed. What can be considered an asset from these companies today are the land and the buildings only. If privatized, these companies need a lot of investments to be repaired and have their facilities and equipment ready for use. Powerful business plans and the identification of new markets are needed in order for them to have the importance they once had in the city's economy (World Bank 2010).

Gjakova's private sector is dominated by small, family-owned businesses, retail shops, cafes, and basic service providers. Like elsewhere in Kosovo, Gjakova's private sector is dominated by micro-enterprises that tend to engage one to five employees. The wholesale and retail shops represent 50.5% of registered businesses. Other sectors that have a higher percentage include hotels& restaurants 10.2%, manufacturing 9.7%, transport& communication 7.8%, and other community 7.5% (IKS, 2011).

## 2.3 Gjakova today

Gjakova has a potential to develop based on this private sector, as well as the aforementioned revitalization of SOEs. In addition, this city also has potential to develop agriculture because it possesses a warm climate with mostly sunny days, far-reaching irrigation and sewage systems and most importantly vast territories of arable land (European times, 2012).

After the war of 1999, the governing body of Gjakova did not do much on bringing back the reputation and development the city used to have in the past. However, in the last local elections in November 2013, Mimoza Kusari-Lila became the mayor of Gjakova. Previously as a Minister of Trade and Industry (MTI), Mrs. Kusari-Lila started the process of making Gjakova a free economic zone. Later in March 2014 based on the concept plan for the development of economic zones in Kosova for the period 2014-2018 approved by the Kosova's government. The free economic zone was declared under the law Nr. 04/L-159 – for economic zones (MTI, 2014).

The purposes of the free economic zone in Gjakova are:

- Increase the number of foreign investments in Kosova
- Increase the number of jobs and income
- The concentration of businesses in one place only
- Increase in competition in domestic and foreign markets
- Decrease the trade imbalance of Kosova by increasing exports.

## **Chapter 3**

### **Methodology of Research**

#### **3.1 Goals**

This Project addresses the problem of slow economic development in Gjakova. This city, as most of the other cities in Kosovo has stagnated since 1999. Gjakova was once an industrial city and today it does not even resemble the city it was. All of the factories that were once the heart of industrialization of Gjakove are now idle. Recently, Gjakova has been declared as a free economic zone with the aim of attracting foreign and domestic investors to invest.

Since this zone has only been established for almost nine months, the effects of this change are yet to be seen. That is because the new governance which has started to make the changes that have been desired for so long has only been in power for one year. It is a hard task facing the mayor Mrs. Mimoza Kusari-Lila and her cabinet. It requires a lot of work to get rid of corruption and misuse of resources that had been instituted by the previous municipal government.

The Free Economic Zone established in Gjakova has brought high expectations for development for many people directly and indirectly involved with Gjakova. If the zone is successful, the benefits could be very significant. More businesses are expected to be opened and that immediately means more jobs for the citizens of Gjakova. The products manufactured in Gjakova are expected to be exported outside the country.

Given these conditions two goals are set for this project:

- The first goal is to assess what has happened economically so far in this newly established free economic zone. Given the current conditions what is expected to happen in the future?
- The second goal is to analyze how this zone will impact employment in Gjakova

## 3.2 Methodology

The methodology for this project consisted of interviews to people relevant to the topic. Initially an interview was planned with the ex-minister of Trade and Industry who was directly involved with the decision to make Gjakova a free economic zone. The next interviewee would be the mayor of Gjakova who was also one of the initiators of this process with her role as minister in the Ministry of Trade and Industry as well as a vice prime minister. The Free Economic zone in Gjakova was established shortly after Mrs. Kusari-Lila was elected the mayor of Gjakova and resigned from the two previous positions in the state government.

It was of great importance to investigate more thoroughly the role of the socially owned enterprises that used to exist in Gjakova and their potentials for development as a part of the free economic zone. After having identified them in chapter two there were, as stated, 39 socially owned enterprises in Gjakova from which 21 had a disputed status, 13 are now privatized, 2 had their statuses recognized and 3 of the were re-tendered in the 49<sup>th</sup> wave of the privatization process. However, it would take a lot of work and effort to visit all these companies and conduct interviews with people responsible from each and every one of these companies. Therefore it was decided to take only two of these companies and interview the relevant people from them. The chosen companies were: SOE “*Metaliku*” - metalworking industry and SOE “*Ereniku*” food processing industry, both with a disputed status. The third company to be investigated was one that is not on the list. This is a completely new company called “Key One” which produces bags that are then sold in Italy.

After having identified which companies were to be looked deeper into, the relevant people from each of these companies that would be able to give me useful information about their companies needed to be found. The fact that Gjakova is a small city made the process of finding people relatively easy. The person interviewed at SOE “*Metaliku*” was Agim Jaka, the director of the company, and the person interviewed from SOE “*Ereniku*” was also its director,

Fehmi Nallbani. The person interviewed in the “Key One” company was Gezim Qurdina, the manager of the company.

Some of the results were also taken from the meetings with the people from the business office in the municipality of Gjakova as well as the people from the Economic Development office of the Municipality of Gjakova.

### **3.3 Difficulties faced during research**

Like any other research paper that requires primary data and has its difficulties this one as well had its own. The primary difficulty faced during this study was contacting these people and setting up the interviews. It is understandable that people have their agendas planned and sometimes it is hard to get to them. Most of the meetings and interviews took place on the weekends rather than weekdays.

Another problem was the interview with Mr. Bernard Nikaj, ex-minister of Trade and Industry, which could not be conducted. The reason for not being able to get his answers was that he was out of the country and the only way to contact him was via email. After carefully preparing the questions for him, an email was sent - the response to which was never received. Anyway, the process of gathering other results continued and now the report will not contain the viewpoint and the opinions of the person who was directly involved with the case of the free economic zone in Gjakova such as Mr. Nikaj.

### **3.4 What has gone well?**

The study has had positive remarks during these ten weeks of effort and dedication. Nothing would be achieved at the end without the help of all the people who assisted in finding the contacts to communicate with the people responsible for the selected companies. Once the contacts were found it became easy to schedule a meeting with the interviewees. They were all welcoming and cooperative- they gave me all the information they were able to give. However,



sometimes there were documents missing from the offices of these companies because they are so old and damaged. During the 1999 war, the paramilitary forces of Serbia had destroyed many important documents of these companies.

Besides proving information, the interviewed individuals have also helped in finding the relevant data from the relevant institutions, especially the mayor Kusari-Lila. All the information that was obtained during the research process will be a valuable asset in the time when the analysis is written, during the discussion as well as in the process of coming up with good recommendations.

## Chapter 4

### Primary Research Results

This chapter contains the information and data obtained by the interviews as well as the meetings with people from the municipality of Gjakova, more specifically those from the business office and the economic development office. This data will be useful when deriving the conclusions and recommendations for this project. Based on that data, we can get a picture of what the capacities of Gjakova are and what will be expected from the newly established zone given the current infrastructure and human capital. In one word, the data shows the economic potential of Gjakova.

Data that is not yet published from the municipality of Gjakova was obtained. This data has to do with the number of businesses operating in Gjakova and the kinds of industries that operate, as well as data on the working age population and their level of education.

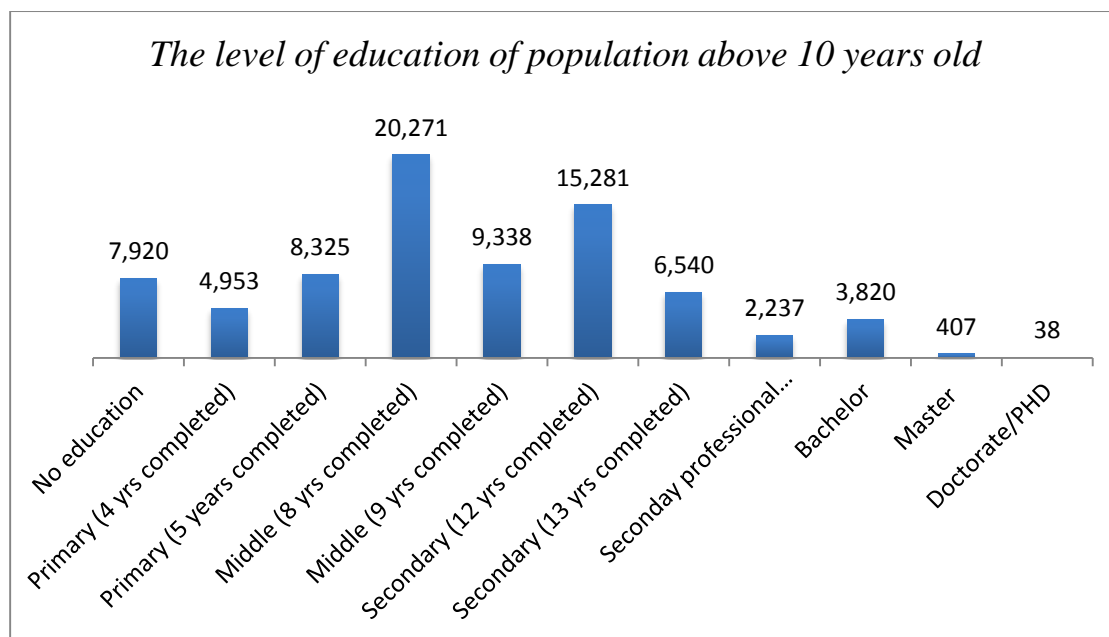
In order to see what the workforce would be like if Gjakova has new investors and starts to develop we need to look at the human capital of the city. If there is a lot of human capital, then there will be jobs for everyone, even more we would be able to import work from other cities of Kosova (Figure 4.1).

**Table 4.1 Population according to working age**

Population according to working age	Gjakova		Kosova	% in Kosova
	Female	Male		
Under the required working age (ages 10-14)	4,768	5,106	176,926	5.6%
Working age (ages 15-64)	31,256	30,941	1,135,463	5.5%
Above the required working age (age over 65)	3,954	3,105	116,785	6.0%

Source: The office for economic development – Municipality of Gjakova

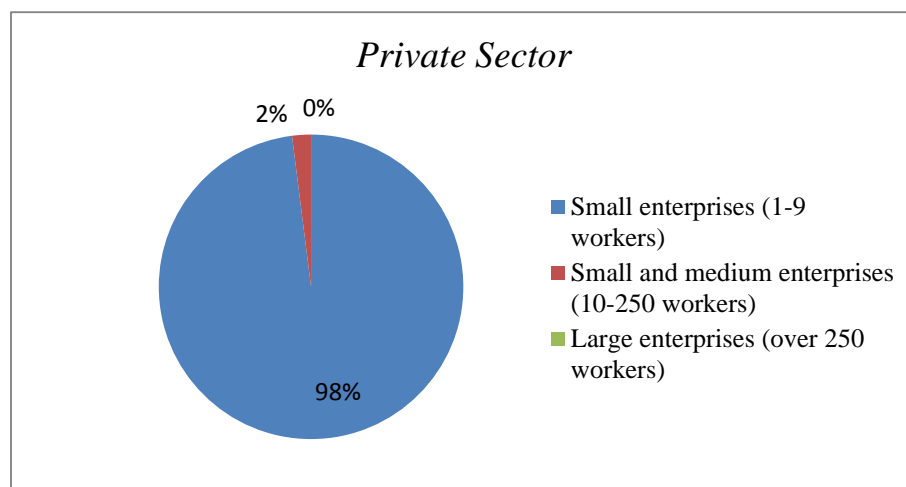
**Figure 4.1 Human Capital (The level of education of the population above 10 years old)**



Source: The office for economic development – Municipality of Gjakova

In Gjakova, there are a total of 4,297 enterprises from which 4,126 (98%) are small enterprises, 80 (2%) are small and medium enterprises and only 2 of them are considered as large enterprises and they represent an insignificant percentage, that's why it is 0% in the graph (Figure 4.2)

**Figure 4.2 Private Sector**



Source: The office for economic development – Municipality of Gjakova

As we can see from the figure, most of businesses in Gjakova are small enterprises with a small number of workers. These industries are more detailed in the table below (Table 4.2). The table contains 17 sectors of the private sector. These sectors are divided into these groups according to the system of classification of economic activities. For each of the sectors on the third column we can see the number of businesses belong to that sector and in the fourth column we can see the number of businesses translated into percentage of that particular sector on the overall private sector.

**Table 4.2 The Distribution of Private Sector Enterprises**

<b>Sector</b>	<b>Description</b>	<b>Number of businesses</b>	<b>%</b>
A	Agriculture, Hunting and Forestry	162	3.8%
B	Fishing	3	0.1%
C	Extractive Industry	41	1.0%
D	Processing Industry	153	3.6%
	- <i>Wood processing</i>	60	1.4%
	- <i>Metal processing</i>	64	1.5%
	- <i>Textile processing</i>	80	1.9%
	- <i>Food processing</i>	134	3.1%
E	Production and distribution of electric energy	5	0.1%
F	Construction	305	7.1%
G	Wholesale and retail industry	1,683	39.2%
H	Hotels and Restaurants	490	11.4%
I	Transportation and communication	262	6.1%
J	Monetary exchange	12	0.3%
K	Real estates, rents, information technology and research activities	217	5.1%
L	Public administration, social security	11	0.3%
M	Education	30	0.7%
N	Health and other social activities	103	2.4%
O	Other collective, social and individual activities	482	11.2%
P	Home services	-	0%
Q	International organizations	-	0%
<b>Total:</b>		<b>4297</b>	

Source: The office for economic development – Municipality of Gjakova

## 4.1 Interview with the Mayor Mimoza Kusari-Lila

The interview with Mrs. Kusari Lila took place on November 21, 2014 in her office in the Municipality building. Gjakova was declared a free economic zone on 18 March, 18, 2014. According to Mrs. Kusari-Lila, Gjakova has started to feel a little the benefits of the newly established free economic zone. However, it is still early to talk about the results of this zone.

The municipality of Gjakova has freed all businesses operating in Gjakova from the municipal taxes. The only taxes these businesses need to pay are the state taxes. However, the zone includes other exceptions such as the improvement in infrastructure for the development of business activities, the concentration of businesses in one place and their promotion, the increase of domestic and foreign competition, the increase in the speed of flow of the good as well as the capital. More specifically, the steps that were taken in this direction are the construction of the city roundabout, the consultancy services for the new businesses as well as the establishment of a fund that will be used to offer grants and loans to small businesses, more so to those who do handcrafts.

In March 2014, the municipality signed an agreement with IFC (International Financial Cooperation) of the World Bank for the improvement of the municipal services as well as the business environment in Gjakova.

In order to develop and promote tourism and cultural heritage in Gjakova, the municipality has opened a tourist center in the middle of the old bazaar. This office will be managed by chwb and PROKult and will be financed by the municipality as well as other local businesses.

Another recent activity in Gjakova is the meeting of the mayor with the Swedish company Trox from Göteborg, Sweden. This company is interested in coming to Gjakova to open their line of producing car covers. The representatives of this company Pontus Lindbom, Johan Burenius and Visar Jaha have come to Gjakova to test the production. Soon the deal will be finalized. The potential number of jobs from opening this company will be 30 employees.

The mayor has had also meetings with a delegation of investors from the Netherlands and Belgium. These investors were led by the Albanian businessman Musa Hoti. These investors are

interested to open a factory that produces thermal glass and another agribusiness for milk and meat processing. The thermal glass factory would employ approximately 70 workers while the milk and meat processing factory will employ 30 workers.

Recently the mayor has had a meeting with the Turkish ambassador in Kosovo, Songul Ozan. They have talked about the cooperation of the municipality of Gjakova and another city in Turkey. More Turkish companies will be present in the donor conference which will be held in March 2015.

#### **4.2 Interview with Agim Jaka, director at SOE “Metaliku”**

The interview with Mr. Agim Jaka mostly consisted of talk about what the company used to have and what it has now. The recent status of this SOE is inactive, which means that it is not operating at all. Recently, the municipality has requested to rent the company from the Kosovo privatization agency so it can use the parts of the company that are still in a good shape.

The company had 1568 workers in the past (in 1990s) whereas today it has only 8 workers whose only role is to guard the facilities of the building. Their wages are between 150-250 euro per month and on top of everything they do not get their wages on time.

**Table 4.2 Compiled information for “Metaliku”**

Surface of Land	256,990 m <sup>2</sup>
Facilities	77,430 m <sup>2</sup>
Number of workers in the past	1568 workers
Workers today	8 workers

**The Company’s assets are listed below:**

- (i) Warehouse of raw materials
- (ii) Unit preparation of raw materials
- (iii) Unit production of tubes
- (iv) Unit production of ropes
- (v) Laboratory,
- (vi) Heating/energy building,
- (vii) final products warehouse

- (viii) Administration building
- (ix) Employees cafeteria
- (x) Industrial water purification unit
- (xi) Metal tape processing unit
- (xii) Nail processing unit'

Most of these buildings are highly damaged and it is very hard to bring them back to work. If this company is sold to an investor it will need approximately 2-3 million euros to repair the existing buildings. However, even after being repaired the company would not be able to employ the number of employees it used to in the 90s. That is because the machinery has evolved and today not as many people are needed to produce the same thing.

#### 4.3 Interview with Fehmi Nallbani, director at SOE “Ereniku”

*Ereniku* is another company in Gjakova that has stopped working in the 90s. During the war of 1999 some of the company’s facilities were destroyed as a result of NATO bombings. The company today works only when it has funds. The number of workers in the past was 1356 while today there are 93 workers. Out of these 93 only 4 are actively working for the company, while the rest stay at home and wait if they will be called out to work.

**Table 4.2 Compiled information for “Ereniku”**

Surface of Land	85,632 m <sup>2</sup>
Facilities	23,639 m <sup>2</sup>
Number of workers in the past	1356 workers
Workers today	93 workers

The company’s most important assets are the complex of production buildings, warehouses and offices.

Historically, the Company’s customer base has expanded to parts of Yugoslavia, as well as to markets of Europe and America. Currently the company does not produce, therefore it does not sell.

If “Ereniku” would be operating its biggest competitor would be “Devolli” company in Peja. “Devolli” would be a strong competitor and hard to compete with. However, if the company

gets privatized and becomes a company of a big investor, it would be able to compete with “Devolli”.

In order for the company to be able to operate again they need an investment of about 1 million Euros. The reason they do not need more is because some parts of the company are in good shape and they can do the work.

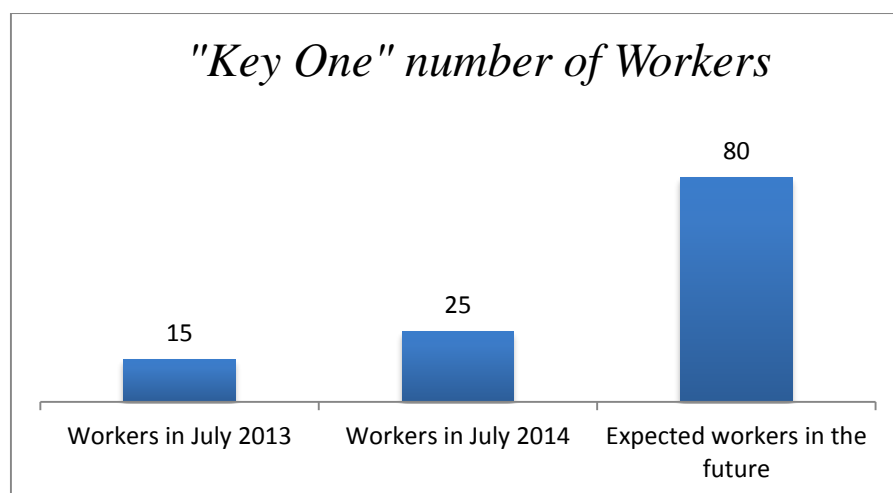
#### 4.4 Interview with Gezim Qurdina, manager at “Key One”

“Key One” is an Italian factory operating in Gjakova since July 29, 2013. This company produces high quality bags the Italian company “The Bridge”. It was initially operating with 15 workers, but the management is constantly looking for recruits because the demand for these bags in Italy is increasing. The reason they want to recruit people is because they consider people need to be trained in order to start to work in this company as regular employees.

Today, the factory employs 25 workers which means that the number of workers has increased for 10 employees over a year.

“Key One” is involved in talks with some well-known bag brands such as Max Mara, Prada, Burberry and others to have a part of their production. If these talks are successful, the company will obviously need a higher number of employees. They expect to have 80 workers in the future.

**Figure 4.3 Comparison on the number of workers before, now and after some time in “Key One”**





The working capacity today is 40 bags per day. All these bags are carefully made and checked several times before being exported to Italy. If the number of workers increases and the capacity of the factory increases, more bags will be produced per day. Mr. Qurdina cites the words of one of the shareholders of the factory, Mirco Tattini who says that in Gjakova there is a safe and comfortable environment for investment for foreign investors.

The company benefits from outsourcing their work in Gjakova because people from Gjakova are a skilled and at the same time a cheap labor force. The bags they produce here are sold up to 800 € in Italy since they are high quality leather bags.

Despite their expectations for an increase in the number of workers up to 80 in the future, the company was closed down at the end of December 2014. The reasons for this closure are not yet known because no further contact was made with the company.

## Chapter 5

### Analysis and Discussion

#### 5.1 Assumptions

The initial assumption for this study was that with the establishment of the free economic zone in Gjakova there will not only be new businesses opened, but the previously existing socially owned enterprises will be revived. However, in the research it was found that it is not possible for these enterprises to start working again. Their facilities still exist today but in hardly repairable conditions. The equipment and machines are mostly stolen, and the ones that are still there are completely demolished which means that they are useless.

The facilities and equipment are not the only obstacles that prevent these enterprises from revitalization. Also, the time of socially owned enterprises that have served a specific market has passed. Now we will have smaller creative companies that will produce a variety of goods to be exported. The big factories that used to operate in Gjakova do not have a future because they do not have the potential they once had and they have lost their market.

Another reason for not being able to revitalize the enterprises is because it has been a long time since they were functional. Therefore, the employees that used to work there are close to their retirement age or have already retired. This means that there will not be as many people returning to their jobs. As indicated from the interviews with representatives of *Metaliku* and *Ereniku*, it is not impossible to bring back to work people who have been laid off for a long time. Either way, they don't have where to come back even if they want to. If any of these SOE's gets leased as the municipality is requesting, most likely there will be a private investor investing in it and the people working there will all be new employees.

## 5.2 Effects on Labor and Income

According to the recent data from the directory for economic development in the municipality of Gjakova the number of people that are eligible for work i.e. 15 to 64 years old is 62,197. Having this number in mind we can say that Gjakova has a workforce that could fill most of the new job positions created by the establishment of the free economic zone.

According to figure 4.2 the number of population that has finished the secondary education is 15,281 and 6,540 students, with twelve years of education and thirteen years of education respectively. The number of people that has a secondary professional education is 2,237. These numbers indicate that in Gjakova there is potential for a young workforce that is eligible to work in the new businesses. However, the number of people who have a bachelor's and master's degree is 3,820 and 407, respectively. These numbers might look too low but in reality they are high enough to comply with the job market that is present in Gjakova. Currently they do not match with the number of vacancies in Gjakovar companies. The number of people who hold a bachelor or master degree is higher than the number of jobs available in Gjakova. These numbers also mean that there is human capital in the city which will be able to fill in even the administrative and managerial positions within the newly established companies.

## 5.3 Effects on the market for goods and services

If the establishment of the zone means more investments, therefore more jobs, these jobs mean more income for the citizens of Gjakova. If people have more income this indicates that they are going to spend it in the city by buying other goods and services. As it is given in Table 4.3 there are 4,297 private enterprises operating in Gjakova. Most of them are small enterprises that have 1-9 workers because people and entrepreneurs in Gjakova think that there is no market in Gjakova that they could expand more without incurring losses. Moreover, the nature of business in Gjakova is family business because most families have a business that the whole family works in it. The most number of businesses is in the wholesale and retail industry, a total

of 1,683 businesses. The new companies to be opened in the free zone will provide a considerable amount of jobs which will make it possible for more people to have their own income. In this way the amount of money in circulation will increase and people will be able to purchase more goods and services. The ones who will benefit from this fact are first of all the owners of the private businesses in Gjakova who will sell more of their goods and services. In this situation everybody will win because the money will be circulating in the hands of the citizens of Gjakova and they will have more purchasing power.

#### **5.4 Nonmonetary benefits**

The citizens of the municipality of Gjakova have been very much affected by the Serbian usurpation in the 1990s. Prior to 1990s as Gjakova was a well-developed city and its citizens led a happy and healthy life. All of the households had at least one member of the family working in one of the SOEs in Gjakova. In general, when people have a job, they live a normal life together with their family. Nevertheless, in the 1990s the Serbian forces intervened and closed most of the socially owned enterprises. Many people were left without jobs and the economic situation in Gjakova had caused dissatisfaction and depression among the citizens. Moreover, in the war of 1999, even more damage was done in the city. The war lasted for three months but it left unforgettable marks in the lives of the citizens of Gjakova. Many people not only had lost their jobs but also family members. This entire situation has brought social unrest to the citizens and since then they are struggling and expressing their dissatisfaction with the current situation in Gjakova.

With the establishment of the free economic zone there is hope that new investments will bring more jobs to the citizens of Gjakova. By having jobs people will not only have more income, but they will also be happier and live their lives normally. Another important benefit would be that the students from Gjakova who do not have the financial ability to get a higher education degree would be able to go and study in the University of Prishtina or abroad. In this way there would not be as many young people wondering around Gjakova's café's every day. People will have things to deal with

## 5.5 The role of central and municipal government

The free economic zone in Gjakova will be supported by an industrial park which will include the property of SOEs Mealiku and Virxhinia. The municipality does not own these properties because they are under the KPA –Kosovo Privatization Agency. There are two alternatives to get to use these properties, one is by buying them and two is requesting a long-term lease. However, the municipality has requested from KPA a long term lease of these facilities. This whole process involves the central government and the Ministry of Finance. Since the elections in June 2014 the government had not been constituted and therefore there was stagnation in the functionalization of the free economic zone in Gjakova.

There is an administrative document which should be passed by the Ministry of Finance for the fiscal benefits that this zone will have. The government should propose to the assembly two additional members to the board of KPA. These two members in the next meeting of the assembly would vote approve the request of the municipality of Gjakova for the long term lease of the two properties and the formation of the industrial park as part of the free economic zone (Mimoza Kusari-Lila, personal interview).

The fact that the central government was not formed for a long period of time Gjakova was negatively affected. The effects of the newly established zone were not able to be seen. However, with the creation of the government there will be an improve in the relationship between the central government and the municipal government of Gjakova.

## **Chapter 6**

### **Cross country comparison of FEZs in the region**

The countries that are in the same region as Kosova are nearly similar as referred to economic development. Therefore, the establishment of the free economic zones in these countries will not only benefit the country in which the zones are but also the whole region. Countries like Albania, Macedonia and Serbia have had their free economic zones established earlier than Kosovo. Apart from economic benefits, the free economic zones will bring political benefits as well. Also, the economists state that in the coming years the industrial production will be based only in free economic zones. Establishing free economic zones in all of the countries around Kosovo like Albania, Macedonia and Serbia will not only help the development of the region but will also bring stability.

#### **6.1 Free economic zones in Macedonia**

Currently Macedonia has four free zones: Bunardzik, TIRZ 2 in Skopje and one zone in Tetovo and another one in Stip. Investors that decide to invest in these zones will not have to pay VAT and are exempted from paying income tax and personal income tax for 10 years from the day they were established (Pavlevski, 2012). Another benefit is that foreign investors do not have to pay customs duties when they import goods, equipment and raw materials from outside Macedonia. In all these four zones' factories the number of workers is 1,150, which is expected to increase in the coming four years up to 3,500 (Mizo,2012).

Foreign investors see Macedonia as a very strategic business location because it serves as a connecting bridge between the east and the west. Among other things, this state has been growing economically in the last few years. In the Bunardzik zone the company Van Hall which produces buses employs 400-500 people (Pavlevski, 2012). Today, even people that lost their jobs years ago working for companies that are shut down are able to find a job. People having jobs is an indication of stability in the country. According to the Macedonian Directorate for

Technological Industrial Development Zones, seven more free economic zones are to open in the future in Strumica, Prilep, Struga, Kicevo, Rankovce, Gevgelija and Radovis (2012).

## **6.2 Free economic zones in Albania**

In 2007 the government of Albania approved the creation of some industrial parks in cities like Vlore, Shkoder, Lezhe, Elbasan, Koplik, Shengjin, Durres and Spitalle. If we analyze the geographical position of these industrial parks, it can be seen that they all are near one of the main ports of Albania ("Property, Economic Zones, and Buildings."2012). However, since then, these zones have not prospered as expected. Later in 2009 the government of Albania approved the first free economic zone which was the container port in Vlora. The Albanian government opened an international tender where Zumax AG was selected as the developer of the zone. However, the total FDI for Albania continues to be one of the lowest in the region (2012). Clearly, the FEZ in Vlora does not attract as many investors as it should.

## **6.3 Free economic zones in Serbia**

Serbia is one of the countries in the region that has the most number of free economic zones. Various municipalities have industrial zones which offer favorable conditions to operate a business. Some of these zones are free economic zones. Currently Serbia has thirteen free economic zones where the export and import is free of customs, clearance and VAT. If foreign investors do invest in these zones and use at least 50% of their raw materials from Serbia, the goods they produce are considered of Serbian origin (MFRS, 2014). Hence, these products can be exported out of Serbian territory and imported into Serbian territory with no customs duties. If we look at the map of Serbia and the location of these zones, it is clearly seen that these zones are established on two of the most important highways of south eastern Europe, on the corridor VII and X as well as near Danube (MFRS, 2014). The reason is that the goods produced in these zones can be easily exported to other countries.

The thirteen Serbian FEZs are: Pirot, Subotica, Zrenjanin, FAS Kragujevac, Sabac, Novi Sad, Uzice, South Nis, Smederevo, Svilajnac, Apatin and Vranje (Free Zones of Serbia). Some of the most well-known international companies are located in these zones. For example in the free economic zone of Pirot which is one of the most developed FEZs in Serbia, Michelin produces car tires. Tigar Rubber footwear produces footwear and other rubber products. Other companies operating in this zone are Tigar technical rubber, Novadis, Elisa Pro and RBL. In the FEZ of Novi Sad two companies operate: Belarus-Agropanonka and NIS Gazprom Neft. In the FEZ of FAS Kragujevac the automobile industry is dominant where the FIAT automobiles Serbia and its subcontractors are located. Another large FEZ in Serbia is Subotica where many international companies have some of their factories like Loher Electro (SIEMENS), Dunkermotoren GmbH, Norma Group and Contitech Serbia (Free Zones of Serbia).

In 2008, Serbia has established the Free Zones Administration as a part of the ministry responsible for financial affairs (MFRS, 2014). The role of this administration is to administer the activities related to free zones.

## **6.4 Comparing all the countries**

Among all the countries in the region that have established FEZs Serbia has the highest number of zones. These zones are also the most developed zones in the region. The reason for this might be that Serbia had its zones established way earlier than the other countries in the region. Also, some of the international scale companies have some of the factories in Serbia. The other country after Serbia with the most developed free zones is Macedonia. The zones in this country have proven to offer more than one thousand jobs, a number which is expected to increase in the following years. However, Albania and Kosova's free economic zones are not as developed. Albania has only one zone (Vlora) which has been established in 2009 and until today it has not noted a significant development. On the other hand, Kosova has just recently (in 2014) established two free economic zones. The creation of these zones is very recent and



therefore we cannot say that we had expected dramatic changes in employment and development in a period less than a year. To see the benefits of these zones we have to make an assessment after more than 2 years.

If the development of the free economic zones in all these countries of the region were to be successful, the whole region will benefit from it. There will be increases in trade between the countries themselves and with these countries and the rest of the south east and central Europe. To reach the rest of the world for exports, these zones could use the port of Vlora to get access to the Adriatic Sea which connects to various European countries as well as African countries. Moreover, through Macedonia these zones will connect to countries all the way to Asia. Through some of its most important routes like the corridor VII and X, Serbia will connect to central European countries. Meanwhile, the free zone in Gjakova has its airport which does not serve for commercial flights. This airport can be used to export goods that are produced within the free economic zone of Gjakova.

## **Chapter 7**

### **Recommendations and Conclusions**

#### **7.1 Promote the FEZ**

One way that this zone can succeed is by promoting it to the targeted businesses. The primary reason for promoting should be to attract more and more domestic and private investment. Many of the existing businesses operating in Kosovo might not be aware of the benefits that the free economic zone brings. Therefore, they need to be persuaded to come and invest in the free economic zone of Gjakova. One way to promote the zone would be by direct meetings with the representatives of the companies. Some other forms of promotion that should be used are presentations in public, written and electronic media, brochures etc.

The municipality of Gjakova should initiate campaigns and promotional programs to raise the awareness among businesses. The best way to achieve positive results with this method is to take the brochures with information on the benefits of the free economic zones to business centers in all of Kosovo's municipalities. In this way the big companies that have their factories in other cities of Kosova would consider moving them to Gjakova as the free economic zones bring lower production costs by removing or lowering certain taxes.

Another successful form of promotion of the FEZ would be attending trade fairs in Kosovo, the region or even further in other countries outside the region. The participation in trade fairs will enable the representatives of the municipality to communicate personally with the investors. Now that Gjakova already has the free economic zone, the period during which it needs to promote itself should be between 2015 and 2018. If this zone is successful, then by 2018 Gjakova should have plenty of new investors including both domestic and foreign ones.

## 7.2 Create a secure environment for doing business

Even though the Municipality of Gjakova has laid the foundations of doing business in the city, there are still some things that need to be regulated. In order for a foreign investor to come and invest in Gjakova, they need to know that they have a secure environment of doing business. Until now, about less than a year since the establishment of the free economic zone the municipality of Gjakova has not been able to create a completely secure environment of doing business. This is partly because the efforts of the central government and the municipal government did not match. The municipality had done its part on this issue, but the central government did not since it was not formed for about six months after the elections.

The municipality of Gjakova has opened a business registration office in which you can go and register your business in less than 48 hours.

### *The process of opening a business:*



A secure business environment can also be created if there is proper legislation that protects the new businesses. However, the legislation should be supported by non corrupt legislative bodies in the municipality.

The second important thing is to offer the new businesses access to water and energy 24 hours a day and seven days a week. Nobody would want to invest in a place where there are problems with the basic utilities.

The third important thing is to offer the new businesses an infrastructure such as buildings and facilities to develop their businesses and means of transportation which will serve to export the goods they produce. Gjakova already has an airport which can be used to export products outside the country. However, the road system is not developed at its best capacities. That is why there is a plan to construct the city roundabout around Gjakova.

### 7.3 Conclusion

From this study can be concluded that if successful the free economic zone in Gjakova will play a role in the development of this city. The revenues of foreign companies that would potentially invest in the zone will indicate a welfare state as well as lead to long term development. The free economic zone in Gjakova is seen as a stimulus to attract more foreign investors and increase the rate of economic growth not only in the municipal level but also in the state level. Growth in this case is achieved without an opportunity cost to the country's scarce capital resources because when a foreign company invests in your country you will have inflow of foreign capital which finances investment expenditures.

By growth it is meant that more people will have jobs, more people will have personal income and the purchasing power of people will increase. This makes even other existing businesses benefit because they will sell more of their goods and services. This whole system indicates more money in circulation in Kosovo's market. Given the results of this study it is seen that the municipality of Gjakova is working on the way to attract foreign investors to come and invest in Gjakova. The mayor has held several meetings with some foreign companies which are expected to develop their businesses in the free economic zone of Gjakova. Since the zone has not a long time that has been established its effects are expected to be seen in the period from 2015 to 2018.

## References

- CBDC, (2006) Center for Business Development of Community, *Mundesite per investim ne Gjakove*, p.4
- Chen, Xiangming. (1994) "The Changing Roles Of Free Economic Zones In Development: A Comparative Analysis Of Capitalist and Socialist Cases in East Asia." *Studies In Comparative International Development* 29.3
- Dixin, Xu. (2009) "China's Special Economic Zones." *Beijing Review*. N.p. Web. 30 Sept. 2014.
- "Doing Business in Kosovo - World Bank Group." (2014) *Doing Business in Kosovo - World Bank Group*. N.p., n.d. Web. 29 Oct. 2014.  
<<http://www.doingbusiness.org/data/exploreeconomies/kosovo#paying-taxes>>.
- European Times.(2012) "Municipality of Gjakova - Ideal Choice for FDI."RSS.European Times.<<http://www.european-times.com/sector/government/municipality-of-gjakova/>>.
- "Free Zones of Serbia." *Ministry of Finance and Economy of the Republic of Serbia* (n.d.): n. pag. Free Zones Administration.
- IKS (2011), Kosovar Stability Initiative *Udhes per n'BE: Mundesite e Zhvillimit me baze ne zone*
- KFEZ(2014)*Korean Free Economic Zones*.N.p., Web. 07 Oct. 2014.  
<<http://www.fez.go.kr/en/what-is-free-economic-zone.jsp>>.
- KIESA, Kosovo Investment and Enterprise Support Agency, *General Overview of the Kosovo's Economy*
- Kituyi, Mukhisa. (2013) "Maximizing Trade, Investment and Development Opportunities of Emerging Markets through Free Trade & Special Economic Zones." *Unctad.org / 3rd Global Free Trade & Special Economic Zones Summit*.N.p., n.d.<<http://unctad.org/es/paginas/SGStatementDetails.aspx?OriginalVersionID=62>>.

MFRS, (2014), *Ministry of Finance of the Republic of Serbia*. N.p., n.d. Web. 30 Dec. 2014.  
<<http://www.usz.gov.rs/eng/index.php>>.

MTI. (2014) Ministry of Trade and Industry.,*Municipality of Gjakova and Mitrovica Announced Economic Free Zones*.N.p. Web. 02 Oct. 2014. <<http://www.mti-ks.org/en-us/Ministry-Trade-and-Industry-activities/Municipality-of-Gjakova-and-Mitrovica-announced-economic-free-zones-2862-2862>>.

Nam, Chang Woon, and Doina Maria Radulescu. (2004) "Do Corporate Tax Concessions Really Matter For The Success Of Free Economic Zones?." *Economics Of Planning* 37.2 99-123.

Pavlevski, Aleksandar. (2012) "Free Economic Zones Have a Positive Effect on Regional Economies." (SETimes.com), 2012.  
<[http://www.setimes.com/cocoon/setimes/xhtml/en\\_GB/features/setimes/features/2012/11/28/feature-03](http://www.setimes.com/cocoon/setimes/xhtml/en_GB/features/setimes/features/2012/11/28/feature-03)>.

Ramet, Sabrina P. (2002)*Balkan Babel: The disintegration of Yugoslavia from the death of Tito to the fall of Milosevic*, Boulder: Westview Press, pp. 9-10.

Sampat, Preeti.(2008) "Special Economic Zones in India."*Economic and Political Weekly* 43.28 n. pag.

Special Economic Zone.(2009) *Princeton University*.N.p.,  
n.d.<[http://www.princeton.edu/~achaney/tmve/wiki100k/docs/Special\\_Economic\\_Zone.html](http://www.princeton.edu/~achaney/tmve/wiki100k/docs/Special_Economic_Zone.html)>.

The role of freezones. (2013). *MEED: Middle East Economic Digest*, 6-9.

The World Bank Group. (2008) "Special Economic Zones: Performance, Lessons Learned, and Implications for Zone Development." n. pag.

UAE. (2013)*MEED: Middle East Economic Digest*, 00477230, Economic Zones

United Nations. (1990) *The Role of Free Economic Zones in the USSR and Eastern Europe*.  
New York: United Nations

World Bank, (2010) *Zberthimi I Potencialit per Rritje: Politikat, Veprimet Strategjike*

"Property, Economic Zones, and Buildings." (2012) AIDA. N.p., n.d.  
<[http://aida.gov.al/?page\\_id=1429](http://aida.gov.al/?page_id=1429)>.